Alberta. Task Force
on Provincial-Municipal Fiscal
Arrangements

Interim Report

Alberta.

TASK FORCE

ON

PROVINCIAL-MUNICIPAL FISCAL ARRANGEMENTS

INTERIM REPORT

August 15, 1972

Members:

Roy Farran, M.L.A., Chairman
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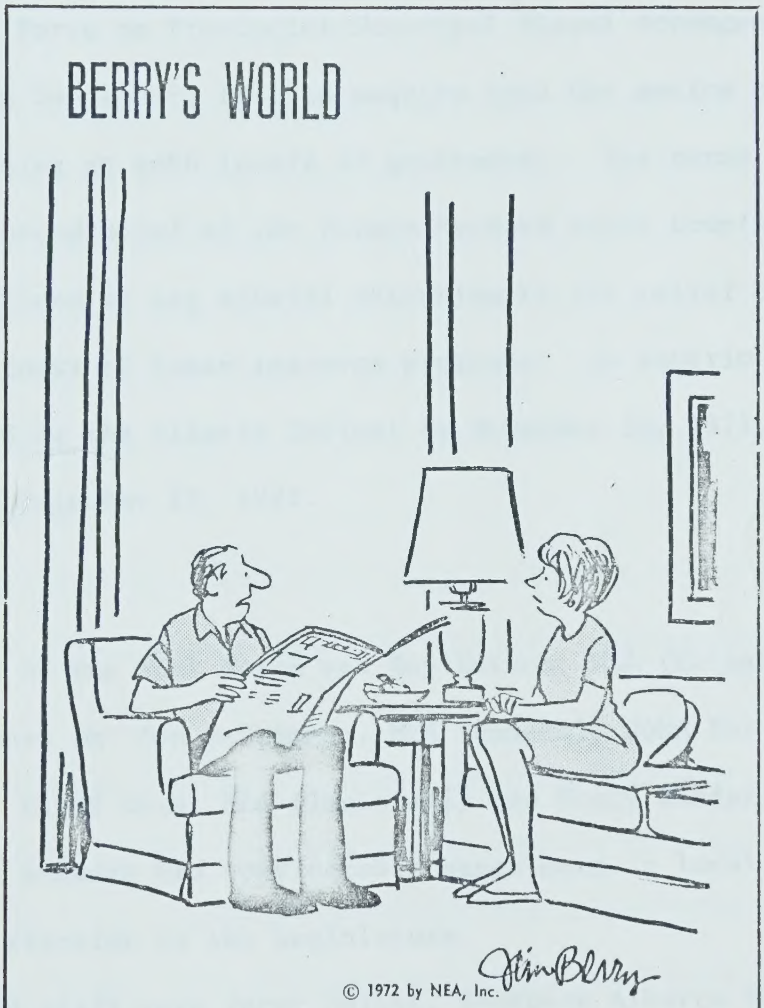

"If Patrick Henry thought taxation withOUT representation was bad, he should see it, now, WITH representation!"

Courtesy of the Albertan

TASK FORCE ON PROVINCIAL-MUNICIPAL FISCAL ARRANGEMENTS

INTERIM REPORT, AUGUST 15, 1972

OBJECTIVES

The Task Force on Provincial-Municipal Fiscal Arrangements was established in September, 1971 to enquire into the entire range of Alberta financing at both levels of government. Its terms of reference included the broad brief of the former Maynard Royal Commission with added instructions to pay special attention to the relief of property tax from the costs of human resource programs. An interim report was to be rendered to the Alberta Cabinet by November 30, 1971, and a final report before December 15, 1972.

COMPOSITION

Chairman of the Task Force was Roy Farran, MLA (Calgary North Hill) and members were Dr. Don McCrimmon, MLA (Ponoka), John Batiuk, MLA (Vegreville), Cliff Doan, MLA (Innisfail) and Rusty Zander, MLA (Drayton Valley). All members had considerable experience in local government before their election to the Legislature.

Appointed staff were Peter Melnyk, Southern Alberta Supervisor of Assessments, Alfred Berridge, Assessor, L. Landry, economics student, and Rosemary Wykes, secretary. An office was established in the Bowlen Building in Calgary.

BACKGROUND

The Government of Alberta was conscious of the strain imposed on local governments by over-reliance on property tax as a source of funds

for the many services at municipal level.

This had been graphically pointed out by a study entitled "Urban Crisis" delivered by the nine cities and the Alberta Urban Municipalities Association in 1966, by the Batchelor Report in the fifties, by the AUMA Position Paper of 1970, by the SCOAT Report of 1970 and by current reports of both the Worth Commission and the Task Force on Urbanisation and the Future.

The study "Urban Crisis" pointed out that the percentage of Alberta's population in urban areas had grown from 37% in 1951 to 56% in 1966. By 1972, the percentage was closer to 76%.

For example, some 60% of the 1972 budget of the City of Calgary was for education. At least a further 12% could be attributed to other human resource programs including hospitals, libraries, recreation, public health and welfare.

Similarly, some 72% of the 1972 provincial budget was devoted to the departments of education, advanced education, health and social development.

The debt load at a municipal level was also high and as of March 31, 1973, the combined funded, unfunded and guaranteed debt of the province was estimated to have reached \$2,205m of which \$1,800m was guaranteed to the municipalities. The seriousness of this municipal debt load in relation to that in other provinces is illustrated in Appendix A.

The main source of funding at municipal level is property tax. While the major urban areas face escalating costs for expanding population needs, the problem is no less for the towns, villages and municipal districts whose tax base is eroding while population declines. Only in a few modestly populated rural districts which have the advantage of economic overspill from the major urban areas or special industry is

for the many services at municipal level.

This had been graphically pointed out by a study entitled "Urban Crisis" delivered by the nine cities and the Alberta Urban Municipalities Association in 1966, by the Bettison Report in the sixties, by the AUMA Position Paper of 1970, by the [illegible] Report of 1970 and by recent reports of both the Worth Commission and the Task Force on Urbanization and the Future.

The study "Urban Crisis" pointed out that the percentage of Alberta's population in urban areas had grown from 37% in 1931 to 69% in 1966. By 1972, the percentage had climbed to 75%.

For example, over 40% of the 1972 budget of the City of Calgary was for education. At least a further 12% could be attributed to other human resource programs including [illegible], libraries, recreation, public health and welfare.

Similarly, some 72% of the 1972 provincial budget was devoted to the departments of education, advanced education, health and social development.

The debt load at a municipal level was also high and as of March 31, 1972, the combined [illegible] excluding the guaranteed debt of the province [illegible] debt [illegible] $[illegible] was guaranteed to the municipalities. The relationship of this municipal debt load in relation to that in other provinces is illustrated in Appendix A.

The main source of funding at municipal level is property tax. While the major urban areas face escalating costs for expanding population needs, the problem is no less for the towns, villages and municipal districts where the tax base is eroding while population declines. Only in a few [illegible] the advantages of [illegible] economic [illegible] general [illegible] technology is

the situation better. Even here, the outward migration of urban dwellers who may receive special assessment benefits intended for agriculture will cause a mounting problem.

To generalize, residential development seldom covers the costs of the services it demands and the balance must come from commercial and industrial development. Or it must come from revenue sources other than property tax such as provincial grants.

Property tax, like a sales tax, is regressive in that it is not necessarily in tune with ability to pay. The value of property improvements only vaguely relates to income levels. In fact, heavy property tax can drive citizens on limited incomes from their homes, thus impeding progress towards a property-owning democracy.

It is also regressive in that beyond certain levels, property tax can inhibit development. Studies in the United States show that development ceased in New Jersey when residential property tax exceeded 4% of market value and commercial property tax exceeded 6% of market value.*

However, constitutional limitations placed upon provinces and municipalities in a federation such as Canada's make it impossible to abolish completely such a major source of direct revenue as property tax. But it should be borne in mind that there is a clear distinction between property tax regarded as an expense before income or corporation tax and property tax paid with after-tax dollars. Only bona-fide owner-residents, as opposed to corporations, landlords, businesses and farmers, lack the privilege of charging such property tax as an expense under dominion income tax regulations.

Present levels of property tax in Alberta are around 2.6% of true

* Source: P. Bernard Norton, Economist,
New Jersey, 1971

value for all property (buildings, structures and land). Farm land is taxed at about 2% to 2.3% of market. These levels are considered tolerable in the United States and are about the prevailing average except in crisis areas such as New Jersey and Boston. Pipelines, transmission lines and railway lines are taxed at about 1.3% of market value and machinery is taxed at about 1.3% of market before generous depreciation tables are applied. It is important to reiterate that property tax dollars are derived from multiplying two factors - the assessment and the mill rate. If the assessment is high, the mill rate may be low to produce the same tax dollars as if the assessment were low and the mill rate were high. Both factors may be variable. Neither can be considered in isolation to determine a property tax level.

The approximate formula is that buildings, etc., are assessed at 45% of the 1963 replacement value, developed land is assessed at 65% of current market value, farm land is assessed on a production basis often considered as 35% of market value, and pipelines and machinery are assessed at 22½% of replacement value when new. Machinery is given generous depreciation over a 15 year life so that after 10 years it is down to 50% of the original 22½%. Allowance is made for age and condition of buildings and for economic and functional obsolescence.

Municipalities are given the option of charging a business tax (usually a percentage, 10% or 11% of fair rental value) in lieu of machinery tax. The percentage this business tax bears to fair market value of the space occupied approximates to the 1.3% related to machinery before age-life tables are applied. But machinery is still assessed for the purposes of the school foundation plan levy even if the business tax route is chosen. Then a statement as to the amount of machinery on the assessment roll is made by the local authority for the levy and is not checked by

the province. Of course, no account is rendered to the owner who pays a business tax in lieu. A municipality selecting the business tax option would gain great advantage by understating its machinery assessment for purposes of the levy.

Another option exists in the Municipal Taxation Act. A local government may choose to impose a lower assessment upon single family residences than on the remainder of the tax roll. Under the old manual this level was 50% of the 1959 replacement value instead of the prevailing 60%. Under the new manual, it is 37½% of the 1963 replacement cost instead of the prevailing 45%. Some 40% of Alberta municipalities, including Edmonton and Grande Prairie, choose to give this extra relief to single family residences by way of a split assessment technique. Whenever assessments are reduced, mill rates increase to produce the same amount of dollars. The net effect of this is that when only a portion of the assessment roll is reduced the net tax dollars paid by the balance of the roll must be proportionately higher. If municipalities take this split assessment option, the balance of the tax roll pays approximately 20% more in improvement property tax than single family residences. The basis for land assessment remains uniform.

The logic of such an option lies in the proposition mentioned earlier that commercial and industrial property, with their rights to deduct property tax as an expense and their ability to pass some tax increases on to consumers, can bear a heavier load than residential in the ratio of as much as 6:4. However, most tax experts frown upon accomplishing this end by splitting assessment yardsticks and would prefer the more open method of the split mill rate - that is to say, a uniform assessment, but with differing mill rates for differing classes of property. For instance, Metropolitan Toronto levies a mill rate on commercial and industrial

property which is 15% higher than on residential.

Obviously, Alberta has regarded a uniform assessment technique as less sacrosanct than a uniform mill rate. Hence the arbitrary assessment concessions made to machinery, farm holdings, pipelines, transmission lines and railway lines. Most assessors would prefer fair market value as a uniform assessment benchmark, with replacement value being only one of several guides. But Alberta uses the simple yardstick of replacement value (based on the Edmonton experience) and only ventures timidly towards market value when it allows depreciation from that figure according to age, condition, functional abnormality and economic obsolescence. Land, however, is assessed on a market value basis except for farm land which bears an arbitrary dollar-per-acre ceiling.

Ontario has declared that it will move to a pure market value basis by 1975. Such an objective would take at least five years to accomplish in Alberta and would require more and better-qualified assessors who must have appraisal certificates. The Task Force suggests that the Alberta Government should give consideration to moving to market value for assessments as a long-term objective, but that in the meantime it remain with the more simple measurement of the replacement value base until it can upgrade assessors to be qualified to make full value judgments.

The province accepts statements from those municipalities that take the option of a lower assessment on single family residences as to the portion of their assessment roll on which the concession has been given. Again they have a vested interest in understating the amount on which an upward adjustment is made for equalisation purposes.

Calculations are then applied to equalise these discrepancies as far as possible for the school foundation plan levy. All properties are brought up to a common level and then non-farm land is reduced to the

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prevailing 35% supposedly applied to the assessment of farm lands in relation to market. For Municipal Assistance Grants, factors are applied to attempt to compensate for sparse populations and assessment strength in relation to the provincial average.

The current levy for the school foundation program is 30 mills. This yields approximately one-third of the three hundred million dollar program which covers some 85% of the total cost of Alberta schools. The balance comes from supplementary requisition on the municipal property tax funds and from miscellaneous sources of revenue.

Farm buildings and dwellings are not assessed in Alberta. All services at a municipal level are paid on the basis of a land tax in agricultural areas - a ceiling of $40 an acre is arbitrarily imposed for the best land and allowances are then made for soil types according to productivity. In the extreme north, the ceiling is $32 per acre. Since people cause the demand for services from the state and not land, this has the merit of maintaining a reasonably stable tax base while population declines, even though it is more costly to service scattered dwellings. The tax base is usually weak in terms of dollars so that mill rates may be high to produce required tax revenue. Where the system becomes strained is in certain municipal districts forming a hinter-land to urban areas. Since land is the basis of taxation, small holders pay little in relationship to the services they receive since there are loopholes in legislation whereby they can escape proper assessments. If they can demonstrate a livelihood as farmers or part-time farmers, their dwellings and buildings are not assessed. Similarly, intensive agricultural operations on a few acres of land pay very little property tax. They are, in fact, carried by the more substantial land tax paid by average and large farmers. Because general re-assessments are only carried out once every 8 years and are not simultaneous, great

discrepancies can exist as land values change. This can only be corrected by strengthening of assessment personnel - by hiring more and better qualified assessors.

The cyclic nature of general re-assessments can cause a sudden and understandable shock to property owners, even though, as stated earlier, the higher assessment may mean a reduced mill rate to produce the same tax dollars. The shock is not only apparent but real when equalisation techniques for the school foundation plan do not give a proper discount for the higher assessment in relation to the uniform levy of 30 supposedly equalised mills. The burden of appeals on courts of revision and the Alberta Appeal Board is enormous. The Task Force, therefore, suggests that Alberta should adopt the rolling re-assessment technique of British Columbia or, at the very least, reduce intervals for re-assessment to five years and make them more simultaneous.

Those small holders who do not qualify for benefits intended for farmers pay an unreasonably heavy property tax in some municipalities. Practice is not uniform. Some local authorities assess dwellings and a three acre home site at regular rates, allowing agricultural rates to apply to the balance. Others assess all land as non-farm land. Clearly, non-farmer small holders should be assessed at full rates, with generous allowance for economic obsolescence due to their lack of urban services, only on their dwelling and home site. The balance of their land should be assessed on an agricultural basis according to productivity. In all fairness, the same principle should apply to summer cottages.

MODUS OPERANDI AND EARLY TASKS

1. The Task Force first gathered statistics and did calculations concerning possible relief for senior citizens. Upon taking office, the

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government concluded that senior citizens were the most identifiable among hard-pressed groups on fixed incomes and gave them priority attention. The Task Force recommended certain options to the Cabinet in its interim report of November 1971 and the government subsequently relieved senior citizens from medicare premiums and gave them the choice of either relief from provincial education tax or of receiving the home-owner grants.

2. Interim changes in the Municipal Taxatión Act were recommended to prevent further erosion of the tax base in villages and to provide more property tax revenue from new buildings (i.e. limiting obsolescence on country elevators to 25% and introduction of a supplementary roll).

3. The Task Force collected and collated statistics from every local government jurisdiction in the province. These figures were connected with a possible formula whereby the 30 mill levy on residential property would be assumed by the province.

The Task Force also isolated figures to show the comparison of such a benefit to the existing homeowner grant for all types of citizens and calculated the worth of municipal assistance grants to each municipality.

4. The Task Force is also giving consideration to possible changes in the provincial grants to schools, to a replacement for the current 6% increase before plebiscite plan, and to methods to acquire more revenue to increase provincial school funding from the present 85% to 90%.

It was aware that however desirable a clearer definition of areas of responsibility and costs might be as between the two levels of government, a mere reshuffle was not enough. Financial relief was needed for local government if the resources of the province could permit it.

5. Across-the-table discussions were held with the two municipal associations and various typical local authorities before the interim report in November 1971.

The Task Force intends to have similar face-to-face discussions on the options and directions now indicated in this August interim report. It has scheduled such meetings with local authority associations.

and educational authorities during September and October. It decided earlier that such meetings would only be of advantage after the facts and costs of the various alternatives had been identified.

It will be grateful for comments and suggestions from any interested party prior to its final report to the Cabinet in December.

But it has recognised from the beginning that the task force approach of being a working body dealing with hard facts is different from that of a royal commission receiving general briefs from the public. The root of the problem was well enough known. Only a working task force could assemble the data on which a possible solution could be based.

BUDGETING BY INCOME

Proper budget control begins with determination of income and allotment by percentage according to spending priorities determined by policy. Management control then consists of common reporting methods by department to determine at an early date where estimates may be exceeded. This form of program budgeting is most useful in comparing expenditures by one section with another similar unit within estimate parameters.

A standard method for determining the proper size of a government budget is to take 35% of the gross product of its area of jurisdiction. According to Page 1 of the Canadian Tax Foundation Report on Provincial & Municipal Finances 1971, actual expenditures by all governments amounted to 35.5% of G.N.P. in 1970. Revenues amounted to 37% of which the federal government took some 18% or about half.

A reliable estimate of Alberta's current Gross Provincial Product

is not available. Guesses vary at from $5.5 billion (income portion) to $7.5 billion. The Worth Commission has chosen to take an estimate of $6.2 billion as the 1970 G.P.P. rising by 7.5% annually to $11.9 billion in 1980. The Task Force has taken this figure for its report (i.e. $7.165 billion for 1972).

If the 18% presumed to be spent by the federal government is eliminated, an exercise of admittedly doubtful mathematical reliability, the 18% remaining to both levels of government in Alberta is $1,289,700,000. But income account expenditure by the two levels of government in Alberta, after transfer payments are eliminated, was as follows:-

Province (1972 estimates)	$1,145,525,000	*Budget
less Federal transfers	228,393,000	address 1972
	917,132,000	
**Municipalities (1971 tax levy only)	251,168,321	
	$1,168,300,321	

These figures are by no means absolute, but they are close enough to indicate that within $100m, Alberta is now spending on income account at both levels of government the recommended percentage of the G.P.P. (Local authorities do have other minor sources of revenue from sale of utilities, licences, fees, etc.). The anticipated increased take from the oil industry will bring the level to 18%.

It is fair to say that any extensive increase in government spending above these levels should not take place. Growth in spending at both levels of government should now be limited to the annual increase in the G.P.P.

The aforementioned calculations do not include borrowing for capital account although they do include the cost of servicing public debt.

**Source: E. J. Briscoe, Senior Municipal Inspector,
Department of Municipal Affairs

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As of March 31, 1973, the public debt in Alberta (funded, unfunded and guaranteed) is estimated at $2,205,000,000. This represents striking growth from the figure of $1,875,078,737 as of March 31, 1972. The growth has been averaging some 15% per year prior to 1972 and is more pronounced at municipal than at provincial level.

It is considered that a prudent level for public debt is no more than 50% of the G.P.P. which is increasing by 7.5% annually.

If this guideline is taken to be 50% of only the income portion of the G.P.P., a prudent level for current public debt would be probably around $2,500,000,000 or only $300,000,000 more than current levels. If the guideline is the $6.2 billion total G.P.P. previously mentioned, there would still have been a cushion of some $800,000,000 in borrowing power before the recommended level of $3 billion was reached. Beyond that level the debt should be maintained at annual increments of no more than 7.5%.

These propositions illustrate the urgent need for an accurate calculation of the G.P.P. This task is presently being undertaken by the Alberta Bureau of Statistics, but is not expected to be completed for two years.

Once the G.P.P. figure is reliably determined, advice on recommended per capita debt should be issued for the benefit of municipalities. The old guideline that debt servicing charges should not exceed 20% of the tax levy is no longer sufficient. Nor are guidelines related to total assessment since public debt should be considered in a total Alberta context. The present system of allowing guaranteed borrowing from the Alberta Municipal Finance Corporation on a basis of so much per capita lacks basic business commonsense. A local authority with a small debt may be justified in seeking to borrow far more in a particular year. One with a heavy existing debt should be dissuaded from borrowing.

Control over permitted debt should rest to a large degree with the Provincial Treasurer.

However, from the point-of-view of how much the province as a whole is entitled to borrow as its share of the Canada Pension Plan funds (the major source of revenue from the A.M.F.C.), the Task Force believes that Alberta should be entitled to expect the dominion to purchase Alberta debentures from this financial resource at a level of $70 per capita rather than the $50 per capita, or the $60 per capita under special conditions, as at present.

DIVISION OF REVENUES

The Task Force endeavoured to take this approach - measuring the size of the total Alberta government pie and dividing between the two levels of government areas of responsibility with commensurate fiscal support. In accordance with its terms of reference, it endeavoured to make recommendations which would shift, as far as compatible with local autonomy considerations, human resource programs towards the province and services of direct benefit to property towards the local authority.

Total Alberta expenditures, excluding intergovernment transfers are estimated at $1,551,921,000 for 1972. Human resource programs already account for about 50% of this combined net budget. (Figures here differ from those on the previous page because of the public account habit of mixing capital and current expenditures, because miscellaneous sources of revenue are included and because fiscal years differ for the two levels of government).

If the local authorities were left with the 21.71% of combined budget for municipal services, recognising that this section will undoubtedly increase with the metropolitan demand for better transportation, etc., and with responsibility for some supplementary requisition for education (2.61%)

health, etc. (.71%), its 20% share of temporary social assistance (.46%), and its admittedly heavy fiscal responsibility for community services, recreation, etc. (2.26%), the total local share would be 27.75% of the combined budget which is close to the 33% considered reasonable.

All these calculations are rough and it is hoped that the figures will be better refined by the final reporting date of December 15.

However, they are sufficient at this stage to indicate the direction in which we should go - that is, to assume a large portion of the residential property tax levy for education (40% to 50%), to increase the provincial contribution to the foundation plan thus reducing supplementary requisitions on municipalities for education, to examine the possibility of taking over responsibility for hospitals entirely thus eliminating these supplementary requisitions, and to reduce unconditional grants-in-aid to municipalities. Some municipal assistance grants will still be necessary for those municipalities with an abnormally weak tax base in relation to responsibility.

In rough percentages these reshuffles would alter the local fiscal contribution as follows:

As stated above, local			27.75%
Plus half S.F.P. levy			3.68%
Plus general formerly covered by municipal assistance grants, (was 2.71%, now recommended 2.26%)			2.26%
			33.69%
Less:	Hospital supplementary requisition	.5%	
	Increase in S.F.P. pay-out from 85% to 90%, of school costs, thus reducing supplementary requisitions for education	.87%	1.37%
			32.32%

These then, in very general terms, were the objectives - assume school foundation plan levy on owner-occupied residential property, take over full responsibility for hospitals and cancel the major portion of municipal assistance grants. We also assumed that the homeowner tax discount would then become redundant for almost all Albertans who would

TASK FORCE CONSIDERS OPTIONS

In regard to the property tax levy for schools, by far the largest part of the exercise, the Task Force endeavoured to ascertain the levy for each class of property. It isolated figures for all residential including high-rise apartments; for single family residences and duplexes; for smaller apartments; for those qualifying for homeowner discounts; for farm lands; and for commercial and industrial property.

It was also necessary to calculate what the municipal assistance grant to each local authority meant in terms of mills and what the homeowner tax discount meant to average residents in terms of mills.

Compilation of these figures revealed immediately that municipal assistance grants would have to be continued for certain municipalities regardless of what option was chosen. In order to bring the poorer local authorities up to a break-even point where the proposed benefits were equalled by the loss of grants, a sum of $766,755 in grants would be required. However, this is not considered enough. The bulk of areas would receive a greater benefit than the grant loss, but some are in marginal situations, so that even with extra relief proposed from miscellaneous supplementary requisitions other than education, it was considered some provincial grants would be required. Otherwise in these areas, municipal taxes would immediately rise to fill the vacuum left by removal of education costs. And though areas of responsibility would be clearer, no tax relief would be experienced by the property owner. Possible formulae for paying such grants are discussed elsewhere in the report - all based on the actual financial strength of the local authority as opposed to area and population formulae previously used.

The Task Force calculated costs and respective merits of seven different plans.

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Although its figures and considerations are not final, and will not be until the scheduled reporting date of December 15, it has now concentrated upon two of these options as follows:

OPTION 1 - SFP LEVY TO AN ASSESSMENT CEILING OR HOMEOWNER ALLOWANCE

That all property owners who now qualify for the Homeowner Tax Allowance will be given the option of either continuing to receive their $75 rebate or of receiving a rebate equal to the school foundation plan levy of 30 equalised mills up to an assessment ceiling of $6,400 - (the average assessment on a single family dwelling and the assessment on a quarter-section of prime land). The maximum dollar value of this benefit would, therefore, be about $192 depending upon the prevailing level of equalised mills in a particular jurisdiction.

Those who now only pay a nominal $1 in property tax because their total tax is less than $75 will continue as before and the province will continue its full reimbursement to the municipality.

Consideration is still being given to the level of the proposed assessment ceiling in view of the fact that general reassessments are imminent in both Calgary and Edmonton. These reassessments will likely bring the average assessment on a single-family dwelling to more than $8,000, but this will occasion some readjustment in the equalised mill levy in those cities.

Total cost to the province of this scheme would be $47,740,000 after adjustment for the Senior Citizens Shelter Allowance Act estimates of $2,500,000 already provided.

Recovery for the province would likely be as demonstrated in the following balance sheet, but no figures are final since the Task Force has not had time to complete its studies.

Cost of Option 1		$50,240,000
Less Senior Citizens already budgeted		2,500,000
		47,740,000
Total provincial funding of hospitals(1973)		8,000,000
Increased provincial contribution to schools		16,000,000
		71,740,000
Less: Homeowner Tax Discount not chosen	$23,000,000	
M.A. Grants discontinued	35,000,000	58,000,000
NET COST		$13,740,000

Consideration is also being given to reducing municipal contribution to social assistance from 20% to 10%, of provincial assumption of total cost of local health units and of measures to reduce or eliminate local supplementary charges for senior citizen accommodation.

The scheme has the merit of relieving property tax for average citizens while not subsidising the rich beyond the median. And yet no means tests are required.

It is a clear step towards the objective of shifting the cost of human resource programs so that local authorities can devote more of their revenue to services of real benefit to property.

Although the loss of unconditional grants will occasion some increase in municipal mill rates, in most cases the increase will be no more than 10 to 15 mills which is far less than the 30 mill relief proposed. Where the financial strength of the municipality is below average, grants will continue.

The Task Force would prefer a uniform assessment base, preferably market value, and the application of a split mill rate - lower for

residential property than for commercial and industrial property. And it recommends that the requirement for a "uniform" mill rate be struck from the Act.

But until such time as assessments can become uniform, it suggests that municipalities would be well-advised to follow the Edmonton example by applying a lower assessment to single family dwellings. However, municipal inspectors must require a stricter control of assessment roll reporting by those local authorities who take this option, if unfairness to the rest is to be avoided. Similarly, where a municipality has not caught up with the provincial majority through general reassessment, it is notenough to accept without verification a local authority's statement that its land is assessed at a certain percentage of market value. An error of just a few percentage points in such a statement will throw out adjustments for equalisation and thus penalise those already up to the level of the current assessment manual.

The disadvantage of Option 1 is that, despite the ceiling, the relief is still not consistent with "ability-to-pay". The basic regressive nature of property tax is unaltered. And those who own property as a business still hav e the enormous advantage of being able to charge their rates as an expense before income tax.

And there is no way in which renters can be relieved. Even though the Task Force agreed with the shelter allowance concept for senior citizen renters, it strongly recommends against such a measure on a general basis. It has failed in other provinces where eligibility has been difficult to prove in the case of direct payments and where no relief has been passed on by landlords in the case of indirect payments.

The high rent situation is no longer acute in Alberta. Vast sums of money have been injected into the housing market by all levels of

government; in public housing rents can be subsidised above 25% of income; many limited dividend projects have been completed for low income tenants; loans are available for all types of home conversion, improvement and construction; and salary qualifications have been reduced for many mortgages. Vacancy rates are high in town housing and apartments. There is no known count of the number of vacant basement suites, usually an important source of shelter in high rent periods.

However, only Option 2 can be effectively adjusted to include renters should a shortage of rental accommodation again occur.

Finally, Option 1 only partly removes basic education cost from residential property, leaving the balance above the ceiling. And frequent adjustments will be necessary to keep pace with the changing assessment levels as the years go by.

OPTION 2 - TAX CREDIT

The Task Force favors this option. Versions of similar tax credit plans were launched this year in Ontario and Manitoba.

These provinces have abandoned schemes for homeowner grants and shelter allowances in favor of a tax credit plan. Basically, a portion of property tax becomes eligible as a credit against the provincial share of income tax.

The basic structure of fiscal arrangements between the two levels of government remains unchanged, although the Task Force would expect some property tax reform if either options are followed.

The Task Force proposed that residential property owners including farmers be given the following benefits as an alternative to the homeowner shelter allowance.

Allow a basic deduction of $200 for urban property and $150 for farm land.

Add 10% of total property tax.

Deduct 1% of taxable income.

Maximum benefit $200 except for Senior Citizens whose maximum benefit would be $250.

Those who have no taxable income would receive a refund cheque after filing a return. But everyone would be required to file a return. All administration would be conducted by the dominion national revenue authorities under agreement with the province. Refund cheques would be directed through the province.

The present system would continue during 1973, since the first returns to which the benefit could be applied would be in 1974.

There is no doubt that a tax credit plan is eminently fair, is wholly in tune with "ability-to-pay" and makes an effective assault on the regressiveness of property tax. It is a first step towards bringing residential property owners closer to equity with those who hold property for profit and who can charge property tax as a full credit before income tax. For those with very low incomes, it has a similar effect to negative income tax.

Appendix B describes the plan in more detail and illustrates the effect on people of various income groups. Benefits decline as income increases.

The Task Force hopes for public reaction to this proposal inasmuch as it is some departure from the original direction of its terms of reference. There may be some disappointment over this option among local government circles since the relief is more direct for the taxpayer than for the municipality itself. Whereas under Option 1 any increased mill rate to compensate for lost municipal grants will clearly only partly fill the gap caused by the relief from the school levy, under Option 2 the new mill rate will be added to the old. Until he receives his income tax refund, the taxpayer may even feel that his taxes have increased. In actual fact,

of course, his net tax payment will be less.

The cost breakdown and recovery for the province would be as follows:

Cost of tax credit		$54,357,000
Additional funds to bring S.F.P. to 90% of education costs		16,000,000
Provincial total hospital funding (1973)		8,000,000
		78,357,000
Less: H.O.G. not chosen	$25,100,000	
M.A. Grants cancelled	35,000,000	60,100,000
NET COST............		$18,257,000

MUNICIPAL ASSISTANCE GRANTS

In all schemes, the Task Force suggests that the impact of increased mill rates to compensate for loss of municipal grants should be reduced as follows:

(a) continuing M.A. Grants to needy municipalities. In this context we are working on several alternative formulae based entirely on the financial strength of the municipality. Possibilities are (i) a grant to hold realproperty tax to a limit of 3% of market value (present average is 2.6%), or (ii) determining a viable average assessment per township for rural areas and for typical villages before subsidising to that level. The Task Force recommends discontinuance of the present formula of weighted population factors after bringing all areas up to the average per capita assessment. It has resulted in substantial grants to wealthy municipalities and is purely arbitrary. Grants were never reduced as economic circumstances changed for the better; they were always increased.

(b) province to assume 100% of hospitalisation cost. The intent of the federal plan was integration with medicare. The Task Force can see no advantage in the supplementary requisition on property.

Current levy is $8,000,000 rising by up to $4,000,000 annually (as of 1973).

(c) consideration for assumption of costs of health units;

(d) consideration for reduction of social assistance contribution of 20% from the municipality to 10%;

(e) that a split mill rate be allowed with a lower level to residential property. If this is not instituted immediately, that municipalities be encouraged to take the split assessment option in the present Act whereby residential assessment is lowered.

PROPERTY TAX

PROPERTY TAX IN GENERAL

The regressive nature of property tax has already been discussed earlier in the report. Here, the Task Force deals in particulars.

Although the general thrust of government policy is to relieve, as far as compatible with local autonomy considerations, property tax from the cost of human resource programs, it is not envisaged that property tax can be abolished entirely. Certainly, its main function should be to finance services of real benefit to property.

But there must also be recognition that property development itself is a major industry in Alberta. There is a clear distinction between property held for shelter and property held for profit. With present constitutional limitations on taxation by provinces, property tax remains a clearly defined direct tax which provinces may use to raise revenue. Commercial and industrial property must contribute to government revenues in one form or another. For instance, manufacturing industry in Edmonton and office buildings in Calgary represent enterprises that can be legitimately expected to contribute to the cost of all state services, including human resource programs. Although in some provinces production taxes or taxes as a percentage of gross revenue are levied in lieu of property tax, this path is not at present followed in Alberta. (Ontario does it for telephones and Quebec does it for pipelines).

RESIDENTIAL VERSUS INDUSTRIAL

It is axiomatic that residential property tax alone cannot pay the

full cost of service expected from the state at a local level and that the balance must be made up with contributions from the commercial and industrial sector. This is the main cause of tax imbalance in developed areas - a dormitory town may not be viable without industry, a sparsely populated rural district may become suddenly tax rich in relation to its population because of industrial overspill from a city or because of isolated industry such as gas plants, another local authority with greater population and responsibilities may be struggling along on a weak tax base while its neighbour is rich and so on. It is for this reason that the suggestion is often made that industrial taxes should be shared in some manner throughout the province after proper consideration is given to the extra responsibilities occasioned by the industry to the site municipality. If justice is to prevail in such schemes, thought must also be given to leaving an even larger share to the site municipality on the assumption that all industrial growth is not fortuitous and some effort to promote industry is required by a local authority. Predictably, the "have" municipalities resist such proposals while they are welcomed by the "have nots". This was the reaction to the survey of municipalities relative to Bill 91. The Task Force agrees with the principles of Bill 91, but will make firm recommendations in its final report.

It should be recognised that "foundation plans" for specific state purposes were not without merit in this sharing arrangement. Similarly an attempt was made to equalise benefits in the formula devised for distribution of unconditional municipal assistance grants. Here the arrangement was to bring all the "have nots" up to the average per capita assessment in the province and to multiply real populations in sparsely populated areas by an arbitrary factor to compensate for area of jurisdiction. The formula is far from satisfactory - too much consideration is given for empty land and tax rich areas still benefit from the method

because no attempt is made to bring their abnormally high assessment down to the median. The main costs of a local authority have been services connected with people, particularly education, more than roads, etc.

ALBERTA METHOD OF APPLYING PROPERTY TAX

Although the regressive nature of property tax is well understood insofar as its burden upon low and fixed income groups are concerned, it is not true in terms of averages that property tax has reached excessive limits in Alberta.

(a) Residential Property

Applying an average mill rate of 70 mills, residential parcels are now taxed in Alberta at 2.6% of market value. An absolute limit is considered to be 4% and 3% is a tolerable level for all except those whose income is low in relation to the property they own.

Assessment according to the current manual is 65% of market value for land and 45% of the 1963 replacement costs for improvements.

General re-assessments are carried out every eight years although the physical limitations of assessment staff cause many to be late.

While a rural town might be easy to re-assess, a large metropolitan area might be late in applying new guidelines. For instance, most towns are already at 65% of market value for land while Edmonton will only go on this basis in 1973 and Calgary may be a year later.

For the purposes of equalisation formula, municipalities report the level their land assessment may bear to market. The figure is taken at face value and calculations are made to bring it up to a common Alberta level. No checks are carried out to test the veracity of the report on which so much depends for fairness.

Depreciation is allowed on buildings for age, condition, functional

obsolescence and economic obsolescence. The latter two considerations are qualifications towards assessment by market value rather than by replacement value of buildings which is the more exact Alberta method. However, the qualification is necessary to allow for changes in value which may have been caused by such factors as the bypassing of a town by a highway or a decline in marketability because of reduction in demand in a rural area.

Ontario is now attempting to leave the replacement value concept in favour of full market value as an assessment benchmark. This change requires all assessors to be qualified appraisers and even then would take considerable time. Even when it is accomplished, much more will be left to judgment than when the base is a simple measuring system on replacement value.

However, since some market value considerations are already contained in the Alberta system - for land and for obsolescence - it is recommended that a policy be instituted for all assessors to take courses towards becoming accredited appraisers at department expense with a reward of a pay grade for accreditation.

SPLIT MILL RATES

Another complication in the present Alberta system is that local authorities have the option of a split assessment for single family residences. The municipality may opt to assess these residential buildings at 37½% of replacement value instead of the prevailing 45% of 1963 value (the old manual basis is 50% of 1959 value instead of 60%). This has the effect of causing the balance of the assessment roll to pay 20% higher improvement property tax tha[n] single family residences. Edmonton, Grande Prairie and 40% of the province take this option of applying a lower tax to single family residences. Of course, any concession by way of reducing assessment for a particular class

results in a higher mill rate to yield the same taxes although the mills themselves are worth less money.

Calculations again have to be made for sake of fairness to equalise payments into and out of provincially administered funds. Again the department relies entirely upon the municipality's veracity in reporting the total assessment on which the benefit has been allowed. If they are in error, distortions appear in the equalisation calculation. These reports are not checked by the province.

The concept of a lower property tax rate on residential property has merit. Our studies show that the absolute limit on commercial and industrial property tax is 6% of market as compared with 4% of market for residential property.

Ontario has practised a split mill rate for years and this is a more exact method, less open to abuse. Commercial and industrial property in Metropolitan Toronto carries a mill rate 10% to 15% higher than residential property.

This report suggests that a split mill rate be applied to commercial and industrial property of 5 mills more than the prevailing level determined for the school foundation program (at present, 30 mills). And it recommends that all property be assessed on a uniform basis, thus removing the split assessment option from the Act. There will under these options, therefore, be two effective mill rate levels - the residential property and commercial/industrial property. It will be necessary to eliminate the words "uniform" in respect to mill rates in the Municipal Taxation Act. There is no reason why local governments should not apply the same rationale.

Unless and until this is done, municipalities should be encouraged to take the split assessment option.

FARM LANDS

Another grave difficulty in the Alberta system is that farm dwellings and buildings are not assessed. Almost all services in rural areas are financed by a land tax, excluding improvement taxes on commerce, industry and non-farm dwellings. As a result, the tax base is constant but weak, causing high mill rates to yield necessary dollars. An arbitrary ceiling of $40 an acre is placed on the assessment of the best farm land. Most farm lands are then assessed at lower levels than this, grading back their value as less than excellent according to types of soil, drainage, etc. This level is deemed to be 35% of market value and for equalisation purposes, calculations are made to bring all other Alberta land down to this level. Average farm land would be assessed at around $25 an acre.

People cause demand for services from the state - for education, hospitals, roads, etc. But land tax takes no account of people or even of ability to pay. A small farmer pays minimum taxes although his home and family may create more demand for services than that of an average or larger farmer who, in effect, subsidises him. Yet the small farmer may operate a feed-lot, a poultry farm or some other intensive farming enterprise that yields a bigger income than that of the average farmer.

The law defines a farmer on less than 20 acres as one who derives his principle livelihood from farming. Others with a little bigger acreage need merely demonstrate a livelihood from farming which may be as little as $1,000 a year derived from bee-keeping. The income need not be a profit, since like other enterprises a farmer cannot be penalised for losing money.

There are many smallholders who may pay less than $80 a year in property tax and who are actually urban workers living on country acreage. They use farm plates on pick-up trucks to go to work on purple gasoline and charge many personal expenses against income tax. There are others

who are bona fide farmers doing an intensive farming business yielding in excess of $20,000 a year who pay less than $50 in property tax. However, a smallholder who does not pretend to be a farmer carries a heavier tax burden than any of his neighbours.

The general attitude of farm organisations is that they do not want to see farm dwellings and buildings assessed. They would like to devise, however, some formula to tax the dwellings and buildings of certain smallholders. From this category, they would exempt marginal farmers and smallholders to whom even part-time farming is an essential contribution to their income.

With some ambivalence, they also want all farm parcels to be treated on the same basis as residential property in urban areas. Hence, farmers in unassessed farm dwellings are entitled to homeowner allowance and the recent Senior Citizens Shelter Allowance for forgiveness of the S.F.P. levy applies to the parcel (up to a quarter section) on which the unassessed farm dwelling sits.

The latter did not satisfy farm organisations who wanted the Senior Citizen Shelter Allowance to apply to all farm land without ceilings or limitation unless a similar ceiling were applied to urban residences. Such a universal ceiling is proposed in Option 1.

There is certainly justification for a differential in treatment as between farm lands and residential property. Farmers can charge many current expenses against income tax and have many other fringe tax benefits such as purple gasoline. No other residential property owner can charge his taxes against his income as an expense. Option 2 proposes a double tax benefit in this regard for farmers.

Other provinces have faced this problem in different ways. Manitoba assesses farm buildings on less than 40 acres and Quebec assesses them

to a reduced ceiling on less than 15 arpents. Others emphasise that in all cases of exemption, farming must be a "chief livelihood" and not a mere "livelihood".

Ontario takes a total market value approach for farm parcels which includes consideration for buildings and picks up full value for intensive production such as feed lots and broiler plants. None have found a reliable productivity or "ability-to-pay" guideline since so many farmers do not have taxable income after expenses are deducted.

The Task Force recommends that legislation be introduced to allow assessment of farm buildings and dwellings on a local option basis, but that levies for the S.F.P. plan continue to exempt farm buildings and dwellings. The concept of a split mill rate can be applied by the municipality when the requirement for uniformity is abolished.

In all options, the Task Force has considered alternatives for treatment of farm lands in the benefits envisaged.

INDUSTRIAL ASSESSMENT

As stated earlier, commercial and industrial property is considered to be able to bear a heavier load of property tax than residential in the ratio of 6:4.

While residential, commercial and industrial buildings assessed at 45% of the 1963 replacement cost, are all taxed at 2.6% of market value, industrial machinery, pipelines, power lines and railway lines are not.

There is wide divergence of opinion on the wisdom of taxing machinery. Some say it is a tax on the tools of production and thus inhibits employment. Others say it inhibits expansion of industry which will result in less revenue from corporation tax, etc. Then there are those who point to the wide range of machinery and need for exemptions since

a broad definition can include everything from a truck hoist in a country garage to a sophisticiated gas plant or refinery.

Alberta allows municipalities to choose between a business tax and a machinery tax. Both major cities take the business tax option and levy a tax of 10% or 11% of fair rental value. This tax is the equivalent of about 1.3% of market value as compared to the 2.6% of market level for property tax on buildings. It is applied to all occupants, owners and renters.

The cities argue that the business tax route allows them to tax head office tenants and non-manufacturing service industries while encouraging expansion of secondary industry.

All machinery is assessable, however, for purposes of the S.F.P. levy (at present 30 mills). It is clear that the cities have a vested interest in understating their machinery assessment for this purpose. And neither the private owner (who is not taxed on this basis) nor the province checks the machinery assessment statements by the cities.

Calculations in Calgary, a head office city, reveal that in recent years a machinery tax might have had a slightly greater yield than the business tax imposed at 10% of fair rental value.

Almost all rural local authorities, for obvious reasons, choose the machinery tax route. They have few office buildings or merchants to yield business tax.

The machinery is taxed on an extremely generous basis in Alberta. Assessment begins with 1963 replacement value applied to buildings. Then an immediate 50% reduction is given due to class of property, bringing the level down to 22½% of market value. A normal depreciation table is then applied - the average life given is 15 years - and the property is depreciated down to 50% of the original 22½% if still in use. Many

companies are demanding use of age life tables to levels below 50% maximum. More rapid depreciation is given in many cases. For example, gas plants costing some $7,000,000 may only be yielding some $45,000 annually in property tax in a short period of time.

Before depreciation by age begins, the taxed level related to market is about 1.3%, half the building rate and about the same as the business tax rate.

Anti-pollution devices, and if this is liberally interpreted it can mean anything from a smoke stack to a fan, are not assessed. They are in Ontario, although the minister can make grants equivalent to the provincial sales tax on such equipment under the Pollution Abatement Act. The Task Force believes anti-pollution devices should be assessed on the same basis as any other property whether it is a structural improvement or machinery.

The Task Force is not ready to make recommendations on the assessment of pipelines and machinery until its final reporting date of December 15.

At present pipelines are given a flat reduction by regulation of 50% from an assessed value of 45% of replacement cost. No depreciation is allowed thereafter. The rate is therefore low.

PROPERTY TAX ON GRAZING LEASES

The Task Force will report on this subject as requested by the Minister before December 15.

Western Stockgrowers Association have made submissions regarding alleged deficiencies in the Sibbald Report and present formulae related to productive capacity on which property tax is based.

The Task Force is of the general impression that, if anything, crown lease fees are too low in relationship to costs of ownership of patented farm land.

However, it is probable that the Saskatchewan approach of charging a flat 7% of market value rent on all crown land is the best. The crown, as the landlord, then pays taxes like all other landlords. And the tortuous arguments over taxing formulae will end.

EQUALISED ASSESSMENT

The present practice of only using the residential assessment of the year before for equalisation purposes should stop immediately.

Current assessments should be used for all equalisation and grant purposes. A debit/credit system can be devised to adjust the following year for any alterations on appeal.

Otherwise the province-at-large is denied its fair share of one year's residential growth and all equalisation figures are further distorted.

SUMMARY

This is an interim report and any suggestions in it are tentative. It is not a position paper. It has been published in response to the public interest shown in the work of the Task Force and because public reaction to the options would be useful before final conclusions are reached.

There is much ground still to cover - formulae for pay-out of

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municipal assistance grants, road grants, recreation, industrial assessment, summer villages and cottages, grazing leases and general property tax reform.

The Task Force will also have recommendations regarding certain regionalisation policies.

Apart from its priority recommendations regarding immediate relief for property taxpayers, it anticipates that many of its final recommendations will be directed at reform which can only take place gradually over a number of years.

APPENDIX A

OPTION 1

S.F.P. LEVY RELIEF

With an assessment ceiling and an option of $75 HOD if school foundation levy is less than $75.

Cost for all Farm Land ceiling of $6,400.

1973 Costs estimated at	$10,540,000
Cost for single family residential and duplex properties based on HOD eligibility with $6,400 ceiling is:	
75% under $6,400 (75 x 260,000 x 130)	25,350,000
25% over $6,400 (25 x 260,000 x 190)	12,350,000
+ shelter allowance to $75	2,000,000
Less Senior Citizens' Shelter Allowance	- 2,500,000
Total	$47,740,000

For $8,000 ceiling (See Page 2)

Advantages

1. Definite outline of split mill rate.
2. Restricts relief to those with ability to pay.
3. Reduces cost to province.
4. Fits present Home Owners' scheme.
5. A check on figures of municipality through application forms.
6. Does not benefit rented properties.
7. Equality of treating size of farm beyond a limit.
8. Less increase in mill rates if Municipal Assistance Grant is cancelled.
9. Limits payments to Alberta residents living on the property.
10. Benefit to one property only.

Disadvantages

1. Gets the provincial government deeply involved with accounts since payouts will be necessary.
2. A big increase in mill rates as with Schemes A, B and C if Municipal Assistance Grant is cancelled.
3. Complicates accounting locally since a ceiling may require the use of two mill rates on the same property if the assessment is above a ceiling.
4. Further complicates matters since HOD is also considered along with ceilings.
5. Always in the public eye for criticism.
6. Difficult to administrate with, or without, computer programs.

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7. No consideration for poor in better homes.
8. The relief of the taxes to a certain level and an increase in mill rates after this level should Municipal Assistance Grant be cancelled could nullify the relief given on a more expensive home, yet ability to pay does not enter into the picture.
9. This, along with other schemes discussed, basically deals with redistribution of the same amounts of money.

New sources of revenue must be determined to relieve certain properties of social service costs, and to also assist municipalities in need due to lack of an adequate task base.

With $8,000 ceiling on all eligible property, additional cost:

Farm land	$2,000,000
Residential	5,000,000
TOTAL	$7,000,000

APPENDIX B

OPTION 2-

ALBERTA SHELTER TAX CREDIT PLAN

This plan is similar to that which Ontario is proposing for the tax year 1972.

The Tax Credit Plan incorporates property taxes with personal income tax for the purpose of establishing tax credits based on ability to pay. Considering the fact that the average home owner should be relieved of the School Foundation levy, a tax credit scheme would achieve this to a certain level of income. Where the taxes are low and the $75 Home Owner Grant exceeded the total School Foundation levy, a tax credit would be applied to the total tax. The tax credit scheme would be used also for farmers.

This proposal would replace the Home Owners' Discount and, in all probability, would require a very great reduction or the cancellation of the Municipal Assistance Grant if these funds were relied on to finance the tax credits. A very close review would be required of the actual overall fairness of the Municipal Assistance Grant.

Also, if such a scheme were inaugurated for the tax year 1973, tax credits would be available in early 1974. To avoid any hardships and to have the system function properly, both the Home Owners' Discount and the Municipal Assistance Grants would continue for 1973 as at present.

A tax credit scheme has been arranged for with the Federal Government by the Province of Ontario. It could well serve as a standard for other provinces to use or modify to meet their own needs. The administration of the scheme would be looked after by the Federal Tax Department as arranged by the province.

The tax credit would be a reduction of the provincial share of

income tax as rebates to individuals would constitute tax credits.

A scheme such as this would be a preliminary step to further relief of tax burdens in the future.

The basic amount of any tax credit program would largely depend on the amount of money the province would have available for such an undertaking. Maximum tax credits should be established for the various classes.

CLAIMS

Property Tax Credits would be claimed on a separately prepared tax credit form and processed with the annual federal income tax. This would necessitate that all tax payers eligible for tax credits would file an income tax return.

The Tax Credit Form would consist of a signed declaration of the tax paid in the year and would show the calculation of the tax credits.

Official receipts for taxes could either be enclosed with the return or made available on demand by the Taxation Office.

Tax Credit Forms of a standard type could be supplied to all tax payers by a municipal office

IMPACT OF TAX CREDITS

There would be refunds to the poor who own property. In the case of the poor who are owners of residential or farm property, the tax credit would, in many cases, extend beyond the school foundation tax to cover the entire property tax.

The tax credit decreases with increase in taxable income. There would be a tax credit on one property only, and, as an example, summer cottages as a second home would be excluded. Where a farmer owned a home in an urban municipality and was also a farmer, he could only claim his

actual place of residence.

Where blanket allowances to relieve properties of the school foundation levy have been considered, they are not selective as to income of the owner, nor the fact that a property owner could have relief on a number of properties. This type of consideration would not help the people who need it most. A tax credit scheme eliminates discrepancies of this nature.

Non-resident property owners of Alberta would not qualify for the tax credit because they would not file an Alberta Income Tax Return.

Average home owners and smaller family farms would benefit most under such a scheme.

OBJECTIVES AND ADVANTAGES

1. To reduce the total tax burden on the lowest income families and individuals in Alberta with a simple and easily administered program.
2. To relate the combined burden of income tax and property tax based on ability to pay.
3. To include farmers in a tax credit scheme.
4. To reduce the tax credit from the wealthy to a minimum of $75 equal to the Home Owner Discount.
5. To eliminate tax credits to non-residents of Alberta both on urban and rural properties.
6. To apply tax credits to only one residence. The benefits to all owners would be equitable, i.e. one property only.
7. To establish a flexible and efficient payout mechanism as an initial step towards replacement of welfare and subsidy programs with a general support scheme.
8. To initiate a program that is simple to understand and apply without creating administrative problems. The tax credit scheme will not interfere with administration of assessments or tax collections. It is then not an

administrative nightmare, as with other proposed schemes, which would create a burden of confusion on a unit of local government. Taxes must be fully paid before claims for tax credits would be considered. If legislated for in the spring of 1973, the credits would be available early in the year to enable the poor to pay their taxes in 1974.

9. Senior citizens can also be adequately looked after under this scheme by adjusting the maximum tax credits for this group, if necessary. It could be that the Shelter Act is somewhat cumbersome to administer.

10. Speculators will pay on all their additional properties.

11. The smaller family farm would benefit most with large operations being restricted as to benefits through a ceiling or a maximum clause.

12. Owners of trailers would be eligible for tax credits. Also, owner occupied suites of an apartment house would benefit through the same procedure as a residence to a maximum.

13. Farmers and ranchers leasing crown lands at very low rates would only possibly benefit on their own deeded land.

14. The tax credit could be the total tax paid by the poorer people. Once the machinery of operating this is functioning smoothly, this tax credit could be set to exceed the total tax to a certain basic level.

15. Administration is through the best possible agency, the Federal Income Tax Department, with all the rules and penalties applying.

16. Tax payers in the same economic situations would receive equal treatment. Tax payers with large families would get some additional tax credits.

17. Personal income and rebates would remain confidential as they should be.

18. The spouse with the highest income would file the tax return for a tax credit and would be the only income used. The second income, if any, would in most cases be temporary in nature.

19. The tax credit scheme would not be subject to abuse by local authorities as could be the case if they are required to report their residential assessments.

20. The tax credit scheme would be a positive scheme towards eliminating equalisation.

ELIGIBILITY

1. All tax payers who are resident in Alberta as of December 31 in any year and who file an Alberta Tax Credit claim are eligible.

2. Eligible residents would also include those who died in the tax year and on whose behalf a "Year of Death" return is filed by the estate.

3. Excluded:

(a) Children under 16 as of December 31.

(b) Persons under 21 as of December 31 who live at home and are claimed as dependants for income tax purposes.

AMOUNT OF TAX CREDIT

Statistics compiled in our survey for some cities indicate that for single family residences, the average assessment is as follows:

Calgary	6,500	
Edmonton	6,130	(at 50% level instead of 60% of 1950 replacement cost)
Lethbridge	5,380	
Red Deer	6,400	
Medicine Hat	4,840	
Lloydminster	4,950	
Mean	5,820	

High 6,500 Low 4,840

With the re-assessment of Calgary and Edmonton, their mean assessment would increase by approximately $2,000 due to increases in land values.

The cities' single family residences represent over 75% of the total provincial single family values. Using the mean assessment of $5,820

and the mean city school foundation mill rate of 27.2, the school foundation tax would be $158. Using this assessment and an average mill rate of 70, the total tax would be $407. From our Tax Credit Table 1, this would indicate an average gross income of $9,000, which is realistic. There would be a net gain to the property owner of $32 from our table at this level using a $200 basic and a $200 maximum tax credit. A young family at this level of income would welcome this credit. Since this information is based on averages only, in actual practice such gains could be minimal in urban centres where wage levels are higher. From the $11,000 income level the tax credit would reduce.

Under such a scheme most homeowners would benefit. In all calculations, 1972 Income Tax considerations were used. Using a $150 basic tax credit homeowners (Married 2 children under 16) would benefit to the $8,000 gross income level. The scheme at this lower basic would not relieve the school foundation tax from the average homeowner. A $200 basic and a maximum tax credit of $200 would be a most realistic consideration to urban dwellers. For senior citizens the maximum tax credit of $250 was used. There are some indications (Munro's 1972 Mini-budget) that old age allowance may be raised from $650 to $1,000. If this should happen, there would be a greater benefit to senior citizens under the tax credit scheme.

With regard to tax credits to the average farmer, one must not overlook the fact that since farming is a business, such expenses as property taxes, building repairs, maintenance and certain living expenses are deductible for income tax purposes.

Table 8 (Actual incomes 1969) indicates that farm incomes are generally low. Of 55,908 farmer returns filed, only 25,335 farmers had a taxable income based on the 1970 income tax considerations. With the new 1972 considerations, taxable incomes would be lower than indicated. There are

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a few farmers who evidently do not file returns. The balance of the 62,000 farmers evidently earn more wages than farm income and file their returns accordingly.

The present farm situation of high operating costs and low returns due to lack of markets indicates that assistance is required in this field. From the standpoint of tax credits, the same overall consideration would be given to farmers as to homeowners. A tax credit scheme of $150 basic to a $200 maximum would benefit the small family to the greatest extent.

The $200 maximum clause would relieve a ½ section of land in the Dark Brown or Greywooded soils rated at approximately as 50% land for assessment purposes and assessed at $6,000 or $7,000. This would be an equivalent assessment to ¼ section of excellent black soil.

Considering the farming community, total tax payments would be paid on many of the marginal farms and small farms, with larger holdings receiving a maximum $200 tax credit which would be equal to that received by an average homeowner in the city. To pay any greater amount to large farms would warrant the statement "The rich get richer". Small holdings which pay a low tax would only get the credit for the tax paid.

Calculation: Basic \$150, or \$200 + 10% property tax - 1% taxable income to a maximum ceiling.

TABLE I

Impact of Property Tax Credit
(Family of 4 with 2 children under 16)

Gross Income	Gross Property Tax	School Foundation Tax (40% of total)	Homeowners Discount	Property Tax Credit	Change in Relief from Homeowner Discount
\$	\$	\$	\$	Basic \$200	Basic \$200
3,000	175	70	75	+175	+100
4,000	200	80	75	200	125
5,000	225	90	75	200	125
6,000	250	100	75	200	125
7,000	300	120	75	200	125
8,000	350	140	75	197	122
9,000	400	160	75	192	117
10,000	450	180	75	188	113
11,000	500	200	75	184	109
12,000	550	220	75	179	104
15,000	650	260	75	161	86
20,000	700	280	75	119	44
25,000	750	300	75	77	2

Recommended \$200 basic to a maximum of \$200. Minimum tax credit \$75.

Assume that people with low incomes generally live in less expensive houses. The general pattern in the table is assumed relevant to indicating a tax credit scheme in practice.

Taxable income is based on 1972 rates with a \$100 standard deduction, pension at 6% of gross income and a 3% employment expense to a maximum of \$150.

Basic tax credit was established to relieve most of the homeowners of the school foundation tax. Depending on the policy of the government and financial resources, this could be adjusted to achieve any level of tax credit.

TABLE 2

Impact of Tax Credit (Married Couple)

Gross Income	Gross Property Tax	School Foundation Tax	Homeowners Discount	Property Tax Credit	Change in Relief
$	$	$	$	Basic $200	Basic $200
3,000	175	70	75	+175	+100
4,000	200	80	75	200	125
5,000	225	90	75	200	132
6,000	250	100	75	200	125
7,000	300	120	75	195	120
8,000	350	140	75	191	116
9,000	400	160	75	186	111
10,000	450	180	75	182	107
11,000	500	200	75	178	103
12,000	550	220	75	173	98
15,000	650	260	75	155	80
20,000	700	280	75	113	38
25,000	750	300	75	75	Equal

Consideration for Income Tax as in Table 1

Minimum Tax Credit of $75
Maximum Tax Credit of $200

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TABLE 3

Impact of Property Tax (Single)

Gross Income	Gross Property Tax	School Foundation Cost	Homeowners Discount	Property Tax Credit	Change in Relief
$	$	$	$	Basic $200	Basic $200
3,000	175	70	75	+175	+100
4,000	200	80	75	200	125
5,000	225	90	75	193	118
6,000	250	100	75	186	111
7,000	300	120	75	182	107
8,000	350	140	75	177	102
9,000	400	160	75	173	98
10,000	450	180	75	168	93
11,000	500	200	75	164	89
12,000	550	220	75	160	85
15,000	650	260	75	141	66
20,000	700	280	75	99	24
25,000	750	300	75	75	Equal

Income Tax considerations as in Table 1

Minimum Tax Credit $75 at upper wage level
Maximum Tax Credit $75, or total taxes whichever is greater at low wage level
Maximum Tax Credit $200

TABLE 4

Impact Tax Credit (Senior Citizens Married)
Head of Household over 65

Gross Income	Gross Property Tax	School Foundation Cost	Homeowners Discount	Shelter Act Provisions	Tax Credit	Change in Relief
$	$	$	$	$	Basic $200	Basic $200
3,000	175	70	75	75	+175	+100
4,000	200	80	75	80	200	125
5,000	225	90	75	90	215	140
6,000	250	100	75	100	207	132
7,000	300	120	75	120	202	127
8,000	350	140	75	140	197	122
9,000	400	160	75	160	192	117
10,000	450	180	75	180	187	112
11,000	500	200	75	200	182	107
12,000	550	220	75	220	177	102
15,000	650	260	75	260	157	82
20,000	700	280	75	280	112	37
25,000	750	300	75	300	75	Equal

Maximum Tax Credit $250
Minimum Tax Credit $75

Tax Tables 1972:

No Pension contributions
$100 standard deduction
3% employment cost to maximum $150
$650 age allowance (there are some indications that the age allowance may be raised to $1,000)

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TABLE 5

Property Tax Credit
(Married Senior Citizens both over 65)

Gross Income	Gross Property Tax	School Foundation Tax	Homeowners Discount	Shelter Benefit	Tax Credit	Change in Relief
$	$	$	$	$	Basic $200	Basic $200
3,000	175	70	75	0	+175	+100
4,000	200	80	75	+5	200	125
5,000	225	90	75	+15	215	140
6,000	250	100	75	25	207	137
7,000	300	120	75	45	202	127
8,000	350	140	75	65	197	122
9,000	400	160	75	85	192	117
10,000	450	180	75	105	187	112
11,000	500	200	75	125	182	107
12,000	550	220	75	145	177	102
15,000	650	260	75	185	157	82
20,000	700	280	75	205	112	62
25,000	750	300	75	225	75	Equal

Maximum tax credit $250
Minimum tax credit $75

Tax tables 1972:

+650 for age for each
No pension
No employment expenses
Standard $100 deduction

(John Munro's 1972 mini budget presentation indicated that the old age allowance may be raised to $1,000)

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TABLE 6

Property Tax Credit
(Senior Citizens Single)

Gross Income	Gross Property Tax	School Foundation Tax	Homeowners Discount	Shelter Benefit	Tax Credit	Change in Relief
$	$	$	$	$	Basic $200	Basic $200
3,000	175	70	75	0	+210	+135
4,000	200	80	75	+5	202	127
5,000	225	90	75	15	195	125
6,000	250	100	75	25	187	112
7,000	300	120	75	45	182	107
8,000	350	140	75	65	177	102
9,000	400	160	75	85	172	97
10,000	450	180	75	105	167	92
11,000	500	200	75	125	162	87
12,000	550	220	75	145	157	82
15,000	650	260	75	185	137	62
20,000	700	280	75	205	92	17
25,000	750	300	75	225	75	Equal

Maximum tax credit $250
Minimum Tax Credit $75

Shelter benefit is difference between $75 and the school foundation tax.

Compare shelter benefits with Tax Credits.

Payments with Tax Credits are greatest to low income taxpayers.

1972 rates for income tax:

+100 standard deduction
No pension or employment costs.

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TABLE 7

Property Tax Credits
(Senior Citizens on GIS Single or Married)

No Income	Gross Property Tax	School Foundation Tax	Homeowners Discount	Shelter Assistance	Tax Credit	Tax Relief over HOD of $150
$	$	$	$	$	Basic $200	Basic $200
	150	60	149	+1	+150	+1
	200	80	150	0	200	50
	250	100	150	0	225	75
	300	120	150	0	230	80
	350	140	150	0	235	85
	400	160	150	10	240	90
	450	180	150	30	245	95
	500	200	150	50	250	100
	550	220	150	70	250	105
	600	240	150	90	250	100

Basic $200 - Maximum $250
Minimum Tax Credit $150
Maximum Tax Credit $250

The tax credit would either be the total tax or 250 whichever is the lesser.

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TABLE 8

Property Tax Credits
(Farmer Married 2 Children under 16)

Net Income	Gross Property Tax	School Foundation Tax	Homeowners Discount	Tax Credit	Tax Relief
$	$	$	$	Basic $150	Basic $150
nil	100	40	75	+100	+25
nil	150	60	75	150	75
500	200	80	75	170	95
1,000	250	100	75	175	100
2,000	300	120	75	180	105
3,000	350	140	75	185	110
4,000	450	180	75	193	113
5,000	600	240	75	198	123
7,000	800	320	75	200	125
9,000	1,000	400	75	200	125
15,000	1,500	600	75	200	125

Net income refers to gross income less farm operating expenses and capital allowances and the usual basic standard personal deductions with a standard $100 and 6% for private pension plan.

Maximum allowance to farmers is $200.

Minimum Tax Credit $75

TABLE 9

Tax Credit Plan
(Farmer Married Couple)

Net Income	Gross Property Tax	School Foundation Tax	Homeowners Discount	Tax Credit	Tax Relief
$	$	$	$	Basic $150	Basic $150
nil	100	40	75	+100	+25
nil	150	60	75	150	75
500	200	80	75	170	95
1,000	250	100	75	175	100
2,000	300	120	75	180	105
3,000	350	140	75	185	110
4,000	450	180	75	187	112
5,000	600	240	75	192	117
7,000	800	320	75	196	121
9,000	1,000	400	75	195	120
15,000	1,500	600	75	188	113

Same considerations for deductions as in Table 8

Minimum Tax Credit $75
Maximum Tax Credit $200

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TABLE 10

Property Tax Credit
(Farmers Married Couple, Head Over 65)
(Shelter Allowance on Parcel Basis Omitted)

Net Income	Gross Property Tax	School Foundation Tax	Homeowners Discount	Tax Credit	Tax Relief over H.O.D.
$	$	$	$	Basic $150	Basic $150
nil	100	40	75	+100	+25
nil	150	60	75	150	75
500	200	80	75	170	95
1,000	250	100	75	175	100
2,000	300	120	75	180	105
3,000	350	140	75	185	110
4,000	450	180	75	191	116
5,000	600	240	75	196	121
7,000	800	320	75	196	121
9,000	1,000	400	75	196	121
15,000	1,500	600	75	186	111

Maximum Tax Credit $250
Minimum Tax Credit $75

Shelter allowance based on a per parcel basis is impossible to incorporate in the above table.

1972 income tax table used:

With an additional allowance for age +650
and a standard deduction of $100
No pension considered.